DIRECT TESTIMONY OF

J. DARRIN KAHL

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2019-2-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is J. Darrin Kahl, and my business address is 1300 12th Street, Suite F, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by SCANA Services, Inc. ("SCANA Services") as Manager of Supply and Asset Management.

Q. PLEASE DESCRIBE YOUR DUTIES RELATED TO NATURAL GAS PROCUREMENT FOR ELECTRIC GENERATION IN YOUR CURRENT POSITION.

A. During the review period of January 1, 2018, through December 31, 2018 ("Review Period"), I was responsible for natural gas procurement for the generating facilities operated by South Carolina Electric & Gas Company ("SCE&G"). These responsibilities included procurement of gas supply and capacity, nominations, and scheduling.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from the University of South Carolina in 1991 with a Bachelor of Science degree in Accounting. Following graduation, I held various roles within the accounting areas of audit, information technology, and financial reporting with an electronic security services company. In 1997, I joined SCANA Energy Marketing, Inc. ("SEMI") as an Energy Services Coordinator performing a variety of job functions, including tariff analysis, gas supply procurement and scheduling. In 1999, I assumed the role of Transportation Coordinator which included intrastate and interstate pipeline scheduling, producer services, and gas supply procurement. In 2002, I accepted the position of Supervisor of Scheduling with SCANA Services where my responsibilities included supervising a team of employees who conducted nominations, scheduling, and balancing on interstate pipelines for all of the SCANA gas subsidiaries. From 2003 through 2007, I assumed the position of Manager of Operations & Gas Accounting, where I was responsible for the day to day operations of gas scheduling on interstate pipelines and gas accounting. Currently, I am the Manager of Supply and Asset Management with SCANA Services, where I manage a team of employees responsible for natural gas procurement, transportation, scheduling and balancing.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified before this Commission on several occasions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my direct testimony is to provide information about the natural gas purchasing process for SCE&G generation and to discuss natural gas prices for the Review Period, and outlook for natural gas prices in the near term.

I. NATURAL GAS PURCHASING

Q. PLEASE DESCRIBE HOW YOUR DEPARTMENT MAKES NATURAL GAS PURCHASING DECISIONS.

A. Natural gas purchases made by the Gas Supply Department ("Department") are driven by the needs of the electric generation group. My Department provides SCE&G's Economic Resource Commitment Group ("ERC") with current market information that they use in resource commitment modeling for the Company's electric generation plants. ERC requests natural gas price quotes and market information from my Department on a daily basis. ERC uses current natural gas prices as one input into its dispatch modeling to determine the most economical means of reliably meeting the electricity needs of customers.

Actual natural gas purchasing decisions are driven by the unit commitment decisions made by ERC. After ERC determines that natural gas is the economical choice for providing reliable power to our customers, my Department is directed to purchase natural gas supplies for delivery with a stated term and volume at the best available current market prices at that time.

Q. PLEASE DESCRIBE YOUR NATURAL GAS CONTRACTS.

A. We have industry standard contracts with more than 60 suppliers that have proven to be creditworthy and reliable. These contracts set forth many of the terms and conditions of delivery. Price and quantity, however, are determined at the time of purchase.

The most common prices quoted for daily natural gas deliveries are the day-ahead gas price. The Gas Daily Average or GDA, for example, is an average of these day-ahead prices, reported on a historical basis the next business day.

The day-ahead natural gas market, however, closes at mid-day of the day before the natural gas is delivered. Because some unit commitment decisions may not be made until the following morning, GDA prices are not available for all supply purchases for electric generation. In these situations, the natural gas we purchase for electric generation is made in the intraday market. In summary, natural gas purchases for electric generation are short-term in nature when compared to other fuel purchases due to the fungible nature of natural gas and the liquidity of the natural gas market.

Q. WHAT TOOLS DO YOU USE TO INFORM YOUR NATURAL GAS PURCHASING DECISIONS?

A. The most important tools used to inform our purchasing decisions are my Department's collective experience in national natural gas markets, careful observation and evaluation of movements in market-based prices, and continual

surveys of our suppliers for pricing information. These tools are by far the most important and most accurate in helping to determine market-based prices for natural gas supplies being purchased on the "spot market."

Another tool we use to inform our purchasing decisions is the Intercontinental Exchange ("ICE"), which is a real time electronic trading board. The shortcoming of the ICE service as with other pricing services is that not all trades are reflected in these services. Nevertheless, ICE is one of the most widely used sources of pricing information and provides a reliable indication of current market prices.

My Department also uses the New York Mercantile Exchange ("NYMEX") pricing data as a guide to determine whether to purchase natural gas on a monthly or seasonal basis. NYMEX is a financial market which captures real-time trading data and information about the projected price of natural gas and other commodities for various times in the future.

Q. WHAT NATURAL GAS TRANSPORTATION CAPACITY DOES SCE&G HAVE FOR THE GENERATING FACILITIES OPERATED BY SCE&G?

A. SCE&G has long-term capacity contracts with the following interstate pipelines for firm transportation service: 51,050 dekatherms ("Dt") per day on Southern Natural Gas Company ("SNG"), 220,000 Dt per day on Dominion Energy Carolina Gas Transmission of which 56,502 Dt per day are related to the acquisition of the Columbia Energy Center, and 40,000 Dt per day on Transcontinental Gas

Pipeline, LLC ("Transco"). SCE&G also has a Commission-approved contract with SEMI for firm natural gas supply up to 120,000 Dt per day which will expire in April 2019.

Q. HAS THE COMPANY SUBSCRIBED TO ANY ADDITIONAL INTERSTATE PIPELINE CAPACITY FOR NATURAL GAS FIRED GENERATION?

A. Yes. In April 2019, the Company will commence service with Elba Express Company, LLC for 62,500 Dts per day. This capacity was acquired to replace, in part, the expiration of the SEMI supply contract. The remaining upstream capacity to supply the expiring SEMI supply agreement will be acquired through a permanent capacity release of 60,000 Dt per day on SNG at the pipeline's maximum recourse rate.

The Company has also entered into a Precedent Agreement with Transco for an additional 125,000 Dts per day of its Southeastern Trail Project ("SET"). The Company subscribed to this capacity to help meet the daily demands of the recent acquisition of the Columbia Energy Center. The anticipated in-service date for the SET capacity is the fourth quarter of 2020. SCE&G has also entered into an agreement subscribing to 62,500 Dt per day of capacity for electric generation on the Mountain Valley Pipeline project. This capacity will provide SCE&G access to the Marcellus natural gas basin which will feed into the SET capacity.

The Company entered into these agreements prior to the closing of the merger of SCANA Corporation and Dominion Energy, Inc. ("Dominion Energy"). The Company continues to review its generation needs on an ongoing basis to determine whether it requires additional natural gas transportation capacity to serve natural gas fired generation facilities. Future contracts for additional natural gas transportation capacity will be subject to the requirements set forth in Commission Order 2018-804 and the Settlement Agreement among Dominion Energy, SCE&G, and Transco, dated October 24, 2018, in Docket No. 2017-370-E.

Q. PLEASE DESCRIBE NATURAL GAS PRICES DURING THE CURRENT PERIOD UNDER REVIEW.

A. Prices in the NYMEX natural gas commodity market began the Review Period at $3.03 per Dt. An early cold January pushed the commodity spot prices above $7.00 per Dt on its highest day, and the delivered market for Transco Zone 5 traded at a high mark of $150 per Dt. These high prices were driven by significant cold weather in the southeast including SCE&G's service territory. For example, Columbia's low temperatures for the first eight days of January were on average 16 degrees Fahrenheit ("^{o}F") below normal, while the system low during this same time period was 19 ^{o}F below normal. Historically, normal weather during this same time averages around 35 ^{o}F. Although the colder weather subsided for several days during January, much of the month experienced cold weather. These conditions

resulted in high prices in the spot market for Transco Zone 5 delivered prices as shown in Exhibit No. __ (JDK-1).

Early February saw an abrupt end to extreme winter temperatures, allowing prices to rapidly fall to $2.53 by mid-February, the low for the year. The remainder of the winter and summer saw prices trade in a range from the $2.50s to mid $3.30s as lower than average national storage levels made it difficult for the market to trade lower. Entering the winter season, the national storage level was at a 15-year low and 16% below the 5-year average for November 1. An early winter cold front coupled with these lower storage levels drove an increase in market prices, topping out at the year's high of approximately $4.93 on November 14, 2018. Prices remained above $4.00 until mid-December when a warm last half of the month allowed prices to retreat, finishing the year at $2.94. Attached hereto as Exhibit No. __ (JDK-2) is a graph of the NYMEX daily settle prices for 2018.

During the Review Period, SCE&G purchased approximately 76,000,000 Dt of natural gas for electric generation at a total cost of approximately $234,000,000 and at an approximate average price of $3.09 per Dt.

The price forecast for the remainder of 2019 suggests natural gas prices are likely to average near $3.00 per Dt as the winter period comes to a close. However, short-term price volatility can result from changes in either supply or demand. The fundamental factors of such changes may include, but are not limited to, weather, increases in customer demand, changes in supplies from shale production, changes in storage inventory levels, and/or constraints in pipeline capacity. Energy analysts

continue to forecast gas prices in the $3.00 per Dt to $4.00 per Dt range over the next 3 to 5 years.

Q. WHAT REQUEST DOES SCE&G MAKE OF THE COMMISSION IN THIS PROCEEDING?

A. During the Review Period, the Department made diligent and prudent efforts to obtain reasonable market-based prices for the reliable supply of natural gas for electric generation and to procure the necessary capacity for the delivery of that supply. Therefore, on behalf of SCE&G, I respectfully request that the Commission find that the Company's fuel purchasing practices were reasonable and prudent for the Review Period.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.